

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 SEC-01 /111 W

----- 015168

R 291832Z AUG 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 2509

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 02 BONN 14209

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING AUGUST 28)

1. SELLING PRESSURE ON BOND MARKET PERSISTS:
WEDNESDAY AND THURSDAY PRODUCED A MARKED INCREASE IN
SELLING PRESSURE ON DOMESTIC PUBLIC BONDS. DURING
THESE TWO DAYS ALONE THE BUNDESBANK REPORTEDLY
PURCHASED DM 614 MILLION IN BONDS OF THE FEDERAL
GOVERNMENT, THE FEDERAL RAILROAD AND THE FEDERAL POSTAL
SYSTEM TO PREVENT A PRICE SLIDE AND HENCE DIFFICULTIES
IN PUBLIC FINANCE. THE YIELD DIFFERENTIALS BETWEEN
PUBLIC BONDS AND OTHER TYPES OF SECURITIES, E.G.

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MORTGAGE BONDS (PFANDBRIEFE), HAS ALREADY BECOME QUITE

LARGE. MORTGAGE BONDS WITH A TEN YEAR MATURITY NOW YIELD APPROXIMATELY 9.40 PERCENT (COMPARE WITH YIELDS PARA 6). WHILE BUNDESBANK PURCHASES WERE ABLE TO PRESERVE STABILITY IN FEDERAL BOND PRICES, THE QUOTATIONS ON BONDS OF THE STATE GOVERNMENTS AND THE KREDITANSTALT FUER WIEDERAUFBAU WERE REDUCED. STATE GOVERNMENT BONDS WERE REPORTEDLY DOWN A FULL PERCENT.

2. FOREIGN EXCHANGE MARKET: DURING THE REPORTING WEEK SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

FORWARD DOLLARS (DISCOUNTS IN PCT. P.A.)				
	SPOT DOLLARS		ONE-MONTH	THREE-MONTH
22	2.5605	-3'3	"3'7	
25	2.5748	-3.5	-3.7	
26	2.5870	-3.9	-4.L	
27	2.5783	-3.5	-4.0	
28	2.5798	-3.5	-4.1	

WITHIN THE JOINT FLOAT ALL FLOAT CURRENCIES REMAINED BELOW THEIR DEUTSCHEMARK UPPER INTERVENTION RATES.

3. MONEY MARKET: THE GERMAN MONEY MARKET TIGHTENED. ON AUGUST 27 THE CALL MONEY RATE REACHED THE 4 PERCENT REDISCOUNT RATE. DURING THE REPORTING WEEK FRANKFURT INTERBANK MONEY RATES DEVELOPED AS FOLLOWS:

	CALL MONEY	ONE-MONTH MONEY	THREE-MONTH MONEY
AUGUST 21	0.4-0.6	2.3-2.7	3.4-3.8
22	0.7-1.2	2.6-3.0	3.5-3.9
25	1.3-1.8	2.7-3.1	3.6-4.0
26	2.5-2.8	3.1-3.4	3.8-4.1

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SIL-01 L-03 H-02 PA-02 PRS-01 SEC-01 /111 W

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R 291832Z AUG 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 2510

INFO AMEMBASSY BERN

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USMISSION EC BRUSSELS

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AMCONSUL FRANKFURT

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27 3.8-4.2 3.O-3.3 3.8-4.1

28 3.8-4.2 3.O-3.3 3.8-4.1

4. BUNDESBANK FOREIGN POSITION: IN THE THD WEEK OF AUGUST (AUGUST 16-23) THE BUNDESBANK'S NET FOREIGN POSITION INCREASED BY DM 0.2 BILLION TO DM 80.1 BILLION. HOLDINGS OF LIQUID FOREIGN EXCHANGE INCREASED BY DM 74 MILLION WHEREAS GROSS LIABILITIES FELL BY ABOUT DM 125 MILLION.

5. BANK LIQUIDITY: DURING THE THIRD WEEK OF AUGUST BANK LIQUIDITY INCREASED BY DM 0.8 BILLION. FACTORS INCREASING LIQUIDITY WERE THE USUAL DECLINE OF CURRENCY UNCLASSIFIED

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IN CIRCULATION IN THE THIRD WEEK OF A MONTH (DM 2.1 BILLION) AND A SUBSTANTIAL DM 7.4 BILLION REDUCTION IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK. THE ABOVE-MENTIONED INCREASE IN THE BUNDESBANK'S FOREIGN POSITION CONTRIBUTED TO THE INCREASE. THE PRINCIPAL FACTOR REDUCING LIQUIDITY WAS AN INCREASE IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK (DM 7.8 BILLION). OTHER FACTORS, NET, REDUCED LIQUIDITY BY DM 1.2 BILLION. DURING THE THIRD WEEK OF AUGUST BANKS REDUCED REDISCOUNT BORROWINGS BY DM 0.8 BILLION.

6. BOND MARKET: DURING THE REPORTING WEEK FAZ AVERAGE
YIELDS TO MATURITY OF OUTSTANDING DOMESTIC BONDS
DEVELOPED AS FOLLOWS:

8 PERCENT 7 PERCENT 6 PERCENT

AUGUST 21	8.79	8.89	8.40
22	8.79	8.90	8.40
25	8.81	8.92	8.42
26	8.80	8.93	8.42
27	8.90	8.97	8.43
28	8.95	9.03	8.42

CASH

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